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Viewing cable 06SOFIA1481, BULGARIA FAVORS RUSSIAN BID TO BUILD BELENE NPP

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Reference ID	Created	Released	Classification	Origin
06SOFIA1481	2006-10-24 12:18	2011-08-30 01:44	CONFIDENTIAL	Embassy Sofia

Appears in these articles:

<http://www.bivol.bg/wlbelene.html>
http://www.capital.bg/politika_i_ikonomika/bulgaria/2011/04/29/1082317_mrusna_energiia/
<http://wlcenral.org/node/1722>

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PP RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
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C O N F I D E N T I A L SECTION 01 OF 03 SOFIA 001481

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DEPARTMENT FOR EUR / BRYZA AND PEKALA

E.O. 12958: DECL: 10/23/2016
TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [RU](#) [GR](#) [BU](#)
SUBJECT: BULGARIA FAVORS RUSSIAN BID TO BUILD BELENE NPP

REF: SOFIA 1363

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d)

1. (C) SUMMARY: In a meeting with the Ambassador Oct. 19, Energy/Economy Minister Rumens Ovcharov confirmed press reports that Bulgaria has decided in favor of the Russian/European consortium for construction of a new nuclear plant at Belene. Ovcharov acknowledged a link between the Belene decision and the Bulgarians' ongoing discussions with Gazprom to renegotiate the Russian gas supply contract with Bulgaria. Beyrle urged Ovcharov to consider a modified deal in which the instrumentation and control (I&C) system for the Belene reactors would be built by Westinghouse, but Ovcharov claimed that French and German pressure for their I&C system was insurmountable. Discussions on the Burgas-Alexandroupolis (B-A) pipeline continue to move forward, but major decisions on equity shares and timelines are pending and Bulgaria is in no hurry to conclude a deal. The Belene decision further compounds Bulgaria's problem of overdependence on Russian energy sources; our comment (para. 10) offers some initial thoughts on ways to push the Bulgarians toward greater diversity. END SUMMARY

BELENE NPP: RUSSIANS ARE CLEAR FAVORITES

2. (C) Ovcharov said the long-awaited announcement for the Belene deal (AtomstroyExport/Framatom-Areva winning out over rival bidder Skoda/Westinghouse) would be made after Bulgaria's presidential election, the first round of which took place on October 22. The Skoda/Westinghouse bid lost out, he said, because the reactor is essentially a fifteen-year old design -- with a proven track record, he conceded, but inferior to the latest-generation AtomstroyExport model. Beyrle urged Ovcharov to consider a "mix and match" scenario for Belene in which the I&C system for the Russian reactors would be built by Westinghouse instead of the German/French Framatom/Areva system that came "bundled" with the Atomstroy package. Ovcharov claimed he had favored this scenario and is a "big fan" of Westinghouse I&C, based on their successful track record at the Kozloduy plant. But the political pressure from Paris and Berlin, he said, was too strong to overcome -- linked with ratification of Bulgaria's EU membership. He said that Chancellor Merkel had raised the issue in her September 27 meeting with PM Stanishev. Ovcharov said he was certain that Westinghouse would win a number of jobs at Belene, but only as a subcontractor to the Russian/European consortium.

3. (C) Ovcharov acknowledged a link between the Belene decision and the ongoing discussions with Gazprom to renegotiate the Russian gas supply contract with Bulgaria. Under that contract, Bulgaria has been paying Gazprom up to 30 percent below market price for gas through a complicated set of fees and pricing arrangements on Russian gas transiting Bulgaria territory for the Balkan and European

markets. Once the decision in principle on Belene has been conveyed to Moscow, Bulgaria will finalize a new gas supply agreement with Gazprom in which price increases are phased in gradually over the next several years and Bulgaria receives guarantees on increased transit volume (and revenues). Only after the gas agreement is finalized to the Bulgarians' satisfaction, Ovcharov claimed, will the Belene deal be formally announced.

14. (C) The AtomstroyExport design has an ambitious construction timetable, but will take more than five years to build, ideally starting in early 2007, plus a year of commissioning. Galina Tosheva, Ovcharov's Deputy Minister responsible for energy, told us separately that even under the best circumstances, Belene would not come on line before 2012 or 2013. Bulgaria plans to keep 51 percent ownership, but is seeking financing for its share of the 4 billion-euro project. They are also looking for strategic investors for the 49 percent minority share. The Italian company Enel is the most serious, and is likely to pick up a large chunk of Belene, according to several industry insiders and journalists we spoke with. Gazprom Bank is not looking at ownership, we have been told, but perhaps to finance.

BURGAS-ALEXANDROUPOLIS: DELAYS OVER EQUITY SHARES

15. (C) Ovcharov downplayed any direct linkage between the Belene/Gazprom deal and ongoing discussions with Russia and Greece over the Bosphorus bypass pipeline from Burgas to

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Alexandroupolis. Despite Russian desire to move the B-A talks forward, he claimed, Bulgaria was in no hurry to conclude a deal. The Russian 51 percent stake is now generally accepted by all three parties, but Ovcharov said he believed it would be split between Transneft, Gazpromneft, and Rosneft -- i.e., TNK-BP would not be part of the Russian group, leaving what he called "total state ownership" by Moscow. Ovcharov said Bulgaria has not yet agreed with Greece and private companies how to divide up the remaining 49 percent. Under the current scenario, Bulgaria and Greece would take 24.5 percent shares, each financing that portion of the entire project, and taking the same in profits, according Deputy Minister Tosheva. Bulgaria will look to private financing from its consortium partners - Bulgargaz (25 percent) and Universal Terminal Burgas (UTB) (75 percent).

16. (C) Ovcharov said Bulgaria was hoping for discussions with Chevron as a potential partner in its 24.5 percent stake, and claimed that Greece might seek a similar partnership with TNK-BP. He said that during the three-party discussions in Athens September 4, Parvanov had made a point of stressing the importance of "broad participation" in the B-A project, and that Putin had expressed specific agreement with Parvanov's point. Overall, however, Ovcharov said the final equity split was of lesser importance. Bulgaria's priority goals were to retain control of the Universal Terminal Burgas, and to ensure Russia did not emerge from the deal as operator of the pipeline. Ovcharov agreed with Beyrle that increased Russian pressure to finalize the B-A project augurs well for an eventual decision to expand volumes through CPC, but said the Bulgarians were not yet in any specific talks with Chevron.

AMBO OIL PIPELINE: NEEDS INVESTORS TO STAY ALIVE

17. (C) Despite a recent spike in interest and activity surrounding the AMBO bypass pipeline -- including the Sept. 29 development/construction agreement between Bulgaria, Macedonia and Albania -- AMBO still appears well behind B-A in terms of financing or throughput commitments. XXXXXXXXXXXX, which would like to work with AMBO through its role in the Universal Terminal E throughput, although they are optimistic that it could happen as soon as five years after B-A comes on line (i.e. 2015). According to XXXXXXXXXXXX, AMBO has a three-stage plan: to raise \$7 million for "preliminary engineering," subject to completion of a Tripartite Convention, over the next six months. The second stage will last 12 months with a goal of raising \$20-30 million through equity investors or an IPO in the U.S. for detailed engineering and material ordering. They will also sign oil contracts at this stage. The third stage will raise the rest of the equity funds, approximately \$350 million, from Mitsubishi, Oiltanking, Techint and other investors. AMBO would then begin construction, estimated to last 30 months. Presently AMBO has "expressions of interest" from ExxonMobil and Vitol, a Canadian oil trader and refinery, but no solid commitments.

BEEFING UP THE ENERGY SECTOR TO CREATE A NATIONAL CHAMPION

18. (U) Minister Ovcharov recently floated a proposal to consolidate all state owned monopolies - the National Electric Company (NEK), Bulgargaz, the Kozloduy Nuclear Plant, Maritza East coal mines, and the Maritza East II Thermal Power Plant - into one giant energy company. The idea is to create a "national champion," as well as prepare the monopolies to compete in a liberalized market, which would strengthen them for potential privatization, according to Ovcharov. The government is also considering listing on international stock exchanges as a way to attract foreign capital to help pay for Belene construction.

19. (C) Not surprisingly, this idea is viewed with suspicion by some industry experts. XXXXXXXXXXXX, called the plan politically motivated, noting that it would put a large share of the economy under control of the senior Coalition partner, Ovcharov's Bulgarian Socialist Party. Others believe the government is attempting to save NEK's monopoly in the electricity export market by creating a larger group of companies to feed into that pool. Asked by the Ambassador whether the establishment of this new energy giant would be welcomed by EC competition authorities, Ovcharov said he

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would not be raising the idea if it were not EU-compliant. He acknowledged that the restructuring would encounter political opposition, but claimed the government would push through with it.

COMMENT

¶10. (C) Given Russia's leverage as supplier of 70-80 percent of Bulgaria's oil and gas, the decision to go with the Russian bid on Belene (which also includes supply and take-back of nuclear fuel) is not surprising and was probably inevitable. According to our sources XXXXXXXXXXXX, although the Russian reactor design is technically superior to Skoda's, Atomstroy's project up the cost. Thus, the economic bottom line for Bulgaria may depend in large part on how much better a deal they get in a new supply/transit agreement with Gazprom as a result of the Belene decision. In strategic terms, however, the Belene choice compounds Bulgaria's problem of over-reliance on Moscow as an energy source, prolonging its complete dependence on Russian nuclear fuel in addition to Russia's near monopoly over oil and gas. Our pitch to the Bulgarians in discussions in Sofia and Washington over the coming months should encompass some of the following themes to strengthen Bulgaria's ability to stand up against Russian commercial and political pressure:

-- Belene: inclusion of US partners (in this case, Westinghouse) to the maximum extent as the project goes forward;

-- Gas supply/transit deal: avoiding ceding control of infrastructure (pipelines, terminals) to Gazprom;

-- B-A: retaining full control over the terminal and pipeline operation; additionally, Bulgarian (and/or Greek) partnership with a respected U.S. major should be encouraged to give some oomph to their minority share;

-- drawing the line on other Russian energy investment or "partnerships." We know, e.g., that Moscow is very interested in the upcoming privatization of several Bulgarian district-heating facilities, including Sofia's. Here, where U.S. and other Western firms would also like to compete, there is no compelling reason to "buy Russian" and Bulgaria should be encouraged to demonstrate its oft-declared interest in diversity.

We welcome any ideas that amplify or add to these initial thoughts.
BEYRLE